

FOR AUDIT



LEKWA LOCAL MUNICIPALITY

(Registration number MP305)

UNAUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014 Published August 31, 2014

FOR AUDIT

Lekwa Local Municipality

(Registration number MP305)

Unaudited Annual Financial Statements for the year ended June 30, 2014

General Information

Nature of business and principal activities	Local Municipality
Executive Mayor	Cllr. C.M. Morajane
Speaker	Cllr. L.B.R. Dhlamini
Chief Whip	Cllr. G.S. Msibi
Member of Mayoral Committee - Technical Services and Development and Planning	Cllr. M.M. Ntuli
Member of Mayoral Committee - Corporate Services and Community Services and Safety	Cllr. B.G Sekhonde
Councillors	Cllr. J.F. Buthelezi Cllr. J.R. de Ville Cllr. L.B.R. Dhlamini Cllr. S.S. Gumede Cllr. H.M. Khota Cllr. M.S. Khumalo Cllr. M.Y. Khumalo Cllr. M.G. Makhanye Cllr. J.P. Masuku Cllr. M.L. Molaba Cllr. C.M. Morajane Cllr. S.S. Mosia Cllr. J.B. Mothopeng Cllr. P. Mphuthi Cllr. G.S. Msibi Cllr. A.S. Ngwenya Cllr. L.N. Nkosi Cllr. M.M. Ntuli Cllr. M.D. Rakitla Cllr. F. Sarang Cllr. P.T. Schnetler Cllr. B.G. Sekhonde Cllr. E.N.K. Shabangu Cllr. N.Z.E. Sitshoni Cllr. M.R. Tshabalala Cllr. N. Tshabalala Cllr. J.J. van der Wath Cllr. J.L. van Rensburg Cllr. S.M. Zacarias Cllr. B.S. Zwane

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General Information

Grading of local authority	Local Municipality Category B Municipality as defined by the Municipal Structures Act no. 117 of 1998
Accounting Officer	L.B. Tshabalala
Chief Finance Officer (CFO)	E.C. Le Roux
Registered office	C/O Mbonani Mayisela and Dr Beyers Naudé Street Standerton 2430
Business address	C/O Mbonani Mayisela and Dr Beyers Naudé Street Standerton 2430
Postal address	PO Box 66 Standerton 2430
Bankers	First National Bank Limited
Auditor	Auditor-General South Africa
Attorneys	Y. Marongo (Manager Legal Services)
Rounding	All amounts have been rounded to the nearest R1
Website	www.lekwalm.gov.za

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The reports and statements set out below comprise the unaudited annual financial statements presented to the provincial legislature:

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Acronyms

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME'S	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
FMG	Financial Management Grant
CMIP	Consolidated Municipal Infrastructure Programme
CPI	Consumer Price Index
MLCCM	Municipal Landfill Closure Costing Model
LSA	Long Service Awards
DORA	Division of Revenue Act
NDPG	Neighbourhood Development Partnership Grant
NDP	Neighbourhood Development Programme

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the unaudited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the unaudited annual financial statements and was given unrestricted access to all financial records and related data.

The unaudited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The unaudited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the unaudited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently reviewing and reporting on the municipality's unaudited annual financial statements. The unaudited annual financial statements have been examined by the municipality's external auditor and their report is presented on page 6.

The unaudited annual financial statements set out on pages 6 to 92, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2014:

L.B. Tshabalala
Municipal Manager

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2014.

1. Review of activities

Main business and operations

The municipality is a local municipality.

The operating results and state of affairs of the municipality are fully set out in the attached unaudited annual financial statements and do not in our opinion require any further comment.

2. Going concern

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer does not have any interest in contracts, either direct or indirect.

5. Non-current assets

Refer to Note 3 to 20 for changes to non current assets.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

L.B. Tshabalala

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Executive Mayor and Municipal Manager

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Internal audit

The municipality has a fully functional Internal Audit Unit. This is in compliance with the Municipal Finance Management Act, 2003.

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Accounting Officer's Report

8. Bankers

First National Bank Limited is used for daily operations as well as investing of grant funding.

9. Auditor

Auditor-General South Africa will continue in office for the next financial period.

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts and
- any service credits.

Lekwa Local Municipality did not enter into any Public Private Partnership for the 2013/2014 financial year, nor does it have any existing PPP's.

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Statement of Financial Position as at June 30, 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Consumer debtors	9	55,671,617	38,276,772
Inventories	6	2,617,557	2,464,386
Receivables from exchange transactions	7	29,968,025	7,166,866
Receivables from non-exchange transactions	8	2,555,055	-
Total Current Assets		120,472,055	71,690,702
Non-Current Assets			
Investment property	3	12,733,279	13,244,694
Property, plant and equipment	4	1,775,830,738	1,845,775,498
Total Non-Current Assets		1,788,564,017	1,859,020,192
Total Assets		1,909,036,072	1,930,710,894
Liabilities			
Current Liabilities			
Bank overdraft	10	278,126	6,765,686
Consumer deposits	16	2,812,694	2,747,035
Employee benefit obligation	5	9,371,805	1,610,952
Other financial liabilities	12	-	1,101,945
Payables from exchange transactions	14	358,643,727	230,666,645
Provisions	13	4,349,626	3,669,361
Unspent conditional grants and receipts	11	2,150,314	21,940,048
VAT payable	15	1,241,768	7,443,218
Total Current Liabilities		378,848,060	275,944,890
Non-Current Liabilities			
Employee benefit obligation	5	53,753,425	53,753,425
Provisions	13	39,495,418	38,535,488
Total Non-Current Liabilities		93,248,843	92,288,913
Total Liabilities		472,096,903	368,233,803
Net Assets		1,436,939,169	1,562,477,091
Accumulated surplus		1,436,939,169	1,562,477,091

* See Note 41

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	245,716,503	254,315,428
Income from agency services		8,527,223	6,648,060
Rental income		1,692,456	1,755,805
Other income	23	1,122,423	1,112,083
Government grants		22,555,055	-
Interest received	29	19,572,722	14,949,275
Gains on disposal of assets		1,068,625	183,772
Total revenue from exchange transactions		300,255,007	278,964,423
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	37,606,077	40,536,389
Transfer revenue			
Government grants & subsidies		148,530,750	117,391,477
Fines		1,754,791	271,486
Total revenue from non-exchange transactions		187,891,618	158,199,352
Total revenue	18	488,146,625	437,163,775
Expenditure			
Personnel	26	(113,917,084)	(113,036,036)
Remuneration of councillors	27	(9,042,378)	(9,065,905)
Depreciation and amortisation	31	(115,675,089)	(115,759,108)
Finance costs	32	(21,228,143)	(18,233,098)
Debt impairment	28	(47,720,689)	(89,485,628)
Repairs and maintenance		(17,640,007)	(17,034,299)
Bulk purchases	36	(198,025,922)	(187,327,394)
Contracted services	34	(25,089,581)	(27,194,595)
Grants and subsidies paid	35	(13,090,225)	(17,423,076)
Actuarial gain/(loss) for the year	5	(1,941,924)	(2,086,488)
General Expenses	24	(49,005,262)	(44,128,782)
Total expenditure		(612,376,304)	(640,774,409)
Operating deficit	25	(124,229,679)	(203,610,634)
Impairment of Receivables from non-exchange transactions	30	(1,308,250)	-
Deficit for the year		(125,537,929)	(203,610,634)

* See Note 41

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2012	1,766,087,725	1,766,087,725
Changes in net assets		
Defecit for the year	(203,610,634)	(203,610,634)
Total changes	(203,610,634)	(203,610,634)
Restated* Balance at July 01, 2013	1,562,477,098	1,562,477,098
Changes in net assets		
Defecit for the year	(125,537,929)	(125,537,929)
Total changes	(125,537,929)	(125,537,929)
Balance at June 30, 2014	1,436,939,169	1,436,939,169
Note(s)		

* See Note 41

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Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Taxation		22,440,489	24,548,341
Sale of goods and services		232,028,189	293,164,643
Grants		150,495,807	128,608,887
Interest income		19,572,722	14,949,275
		424,537,207	461,271,146
Payments			
Employee costs		(115,198,609)	(116,902,157)
Suppliers		(227,243,361)	(300,889,140)
Finance costs		(21,228,143)	(18,233,098)
		(363,670,113)	(436,024,395)
Net cash flows from operating activities	37	60,867,094	25,246,751
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(45,471,312)	(20,918,845)
Proceeds from sale of property, plant and equipment	4	1,321,025	788,472
Proceeds from sale of financial assets		(1,308,250)	-
Actuarial loss on Retirement benefit obligation		(1,941,924)	(2,086,488)
Net cash flows from investing activities		(47,400,461)	(22,216,861)
Cash flows from financing activities			
Repayment of other financial liabilities		(1,101,945)	(1,130,839)
Finance lease payments		-	(154,572)
Net cash flows from financing activities		(1,101,945)	(1,285,411)
Net increase/(decrease) in cash and cash equivalents		12,364,688	1,744,479
Cash and cash equivalents at the beginning of the year		17,016,992	15,272,514
Cash and cash equivalents at the end of the year	10	29,381,680	17,016,993

* See Note 41

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	282,263,164	(19,871,634)	262,391,530	245,716,503	(16,675,027)	Revenue overstated
Income from agency services	20,263,064	(4,304,774)	15,958,290	8,527,223	(7,431,067)	Revenue overstated
Rental income	792,000	(239,000)	553,000	1,692,456	1,139,456	Includes site rents squatters of R 1.1 mil which should have been included with the property rates
Other income - (rollup)	886,000	27,050	913,050	1,122,423	209,373	Revenue overstated
Government grants	-	-	-	22,555,055	22,555,055	Grants received after adjustment budget and no provision was made
Interest received	16,190,918	976,792	17,167,710	19,572,722	2,405,012	Interest capitalised at the end of the financial period, Increased in line with the decreased collection rates & increased outstanding debtors
Gains on disposal of assets	-	-	-	1,068,625	1,068,625	Revenue not budgeted as this relates to sale of land during the financial period

Total revenue from exchange transactions	320,395,146	(23,411,566)	296,983,580	300,255,007	3,271,427	
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Revenue from non-exchange transactions

Taxation revenue

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Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Property rates	47,321,000	2,631,000	49,952,000	37,606,077	(12,345,923)	The revenue from this sources was below the budgeted amount due to the rates revenue from the Tutuka Power Station being budgeted being based on an incorrect valuation of R10 billion iso R1.0 million
Government grants & subsidies	86,670,000	(245,000)	86,425,000	148,530,750	62,105,750	Includes R 60.7 million for capital grants expenditure which conditions have been met.
Transfer revenue						
Fines	2,705,000	(750)	2,704,250	1,754,791	(949,459)	Revenue overstated
Total revenue from non-exchange transactions	136,696,000	2,385,250	139,081,250	187,891,618	48,810,368	
Total revenue	457,091,146	(21,026,316)	436,064,830	488,146,625	52,081,795	
Expenditure						
Personnel	(105,433,000)	(3,376,000)	(108,809,000)	(115,913,639)	(7,104,639)	Increased overtime not budgeted for
Remuneration of councillors	(8,554,000)	(608,000)	(9,162,000)	(9,042,378)	119,622	
Depreciation and amortisation	(135,296,000)	715,000	(134,581,000)	(115,509,255)	19,071,745	Over budget due to full impact of GRAP 17 (PPE) not known at the time the budget was prepared
Finance costs	(1,111,000)	280,000	(831,000)	(21,228,143)	(20,397,143)	Interest for arrears on Eskom account due to cash flow constraints not budgeted for

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	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Debt impairment	(57,133,000)	(37,575,040)	(94,708,040)	(47,720,689)	46,987,351	The budget was overstated due to final assessment of debtor impairment not known at the time of the budget preparation
Repairs and maintenance	(13,149,000)	(1,122,000)	(14,271,000)	(17,640,007)	(3,369,007)	Actual expenditure was reduce substantially as part of the cost curtailment to align expenditure in line with reduced revenue streams
Bulk purchases	(198,020,000)	9,405,680	(188,614,320)	(198,025,922)	(9,411,602)	Actual expenditure was reduce substantially as part of the cost curtailment to align expenditure in line with reduced revenue streams
Contracted Services	(20,322,000)	(10,611,000)	(30,933,000)	(25,089,581)	5,843,419	
Grants and subsidies paid	(27,950,000)	15,005,000	(12,945,000)	(13,090,225)	(145,225)	Expenditure not budgeted as this relates to sale of land during the financial period
Loss on disposal of assets	-	-	-	(1,941,924)	(1,941,924)	
General Expenses	(47,471,579)	8,073,679	(39,397,900)	(47,174,541)	(7,776,641)	Reduction in budget provision in an attempt to reduce overall expenses in line with reduced revenue streams
Total expenditure	(614,439,579)	(19,812,681)	(634,252,260)	(612,376,304)	21,875,956	
Operating deficit	(157,348,433)	(40,838,997)	(198,187,430)	(124,229,679)	73,957,751	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Fair value adjustments	-	-	-	(1,308,250)	(1,308,250)	Impairment of traffic fines as part of the new accounting standards
Deficit before taxation	(157,348,433)	(40,838,997)	(198,187,430)	(125,537,929)	72,649,501	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(157,348,433)	(40,838,997)	(198,187,430)	(125,537,929)	72,649,501	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	2,843,000	-	2,843,000	2,617,557	(225,443)	Reduced inventory kept on hand
Receivables from exchange transactions	10,378,000	-	10,378,000	29,968,025	19,590,025	Includes additional grant received of R 20mil
Receivables from non-exchange transactions	-	-	-	2,555,055	2,555,055	Additional grant received
Consumer debtors	31,563,000	-	31,563,000	55,671,617	24,108,617	The budget was understated due to final assessment of debtor impairment not known at the time of the budget preparation
Investments	34,000,000	-	34,000,000	-	(34,000,000)	Amount of R 29 million already included in the cash and cash equivalents
Cash and cash equivalents	18,409,000	-	18,409,000	29,659,801	11,250,801	Includes call account balances of R 29 million
	97,193,000	-	97,193,000	120,472,055	23,279,055	
Non-Current Assets						
Investment property	-	-	-	12,733,279	12,733,279	Not known at the time of the budget preparation
Property, plant and equipment	1,885,866,000	-	1,885,866,000	1,775,830,738	(110,035,262)	
	1,885,866,000	-	1,885,866,000	1,788,564,017	(97,301,983)	
Total Assets	1,983,059,000	-	1,983,059,000	1,909,036,072	(74,022,928)	
Liabilities						
Current Liabilities						
Other financial liabilities	1,699,000	-	1,699,000	-	(1,699,000)	Redeemed during the financial period

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Payables from exchange transactions	160,126,000	-	160,126,000	358,643,727	198,517,727	Understated presumed that the Eskom, DWA & MP would be paid during the financial period
VAT payable	-	-	-	1,241,768	1,241,768	Understated and included as part of trade & other payables
Consumer deposits	2,609,000	-	2,609,000	2,812,694	203,694	Deposits understated
Employee benefit obligation	-	-	-	9,371,805	9,371,805	Not known at the time of the budget preparation
Unspent conditional grants and receipts	-	-	-	2,150,314	2,150,314	Not known at the time of the budget preparation
Provisions	348,000	-	348,000	4,349,626	4,001,626	Not known at the time of the budget preparation
Bank overdraft	-	-	-	278,126	278,126	Reconciling items
	164,782,000	-	164,782,000	378,848,060	214,066,060	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	53,753,425	53,753,425	Not known at the time of the budget preparation
Provisions	32,309,000	-	32,309,000	39,495,418	7,186,418	Not known at the time of the budget preparation
	32,309,000	-	32,309,000	93,248,843	60,939,843	
Total Liabilities	197,091,000	-	197,091,000	472,096,903	275,005,903	
Net Assets	1,785,968,000	-	1,785,968,000	1,436,939,169	(349,028,831)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,785,968,000	-	1,785,968,000	1,436,939,169	(349,028,831)	

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	-	-	-	22,440,489	22,440,489	UNKNOWN
Sale of goods and services	284,207,000	(46,442,000)	237,765,000	232,028,189	(5,736,811)	
Grants	129,178,000	-	129,178,000	149,230,606	20,052,606	Additional grants received not budgeted for.
Interest income	11,983,000	-	11,983,000	19,574,879	7,591,879	Interest capitalised at the end of the financial period, Increased in line with the decreased collection rates & increased outstanding debtors
	425,368,000	(46,442,000)	378,926,000	423,274,163	44,348,163	
Payments						
Employee costs	(113,987,000)	(3,984,000)	(117,971,000)	(123,305,821)	(5,334,821)	Overtime not budgeted for
Suppliers	(284,245,000)	1,768,000	(282,477,000)	(210,732,936)	71,744,064	Actual expenditure was reduced substantially as part of the cost curtailment to align expenditure in line with reduced revenue streams
Finance costs	(1,711,000)	-	(1,711,000)	(16,394,583)	(14,683,583)	Interest for arrears on Eskom account due to cash flow constraints not budgeted for
Other payments	(2,290,000)	-	(2,290,000)	-	2,290,000	Included as part of suppliers & employee payments
	(402,233,000)	(2,216,000)	(404,449,000)	(350,433,340)	54,015,660	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net cash flows from operating activities	23,135,000	(48,658,000)	(25,523,000)	72,840,823	98,363,823	
Cash flows from investing activities						
Purchase of property, plant and equipment	(43,308,000)	-	(43,308,000)	(60,544,749)	(17,236,749)	The budget includes retention withheld
Proceeds from sale of property, plant and equipment	-	-	-	1,274,983	1,274,983	Revenue not budgeted as this relates to sale of land during the financial period
Net cash flows from investing activities	(43,308,000)	-	(43,308,000)	(59,269,766)	(15,961,766)	
Cash flows from financing activities						
Proceeds from other financial liabilities	(1,000,000)	-	(1,000,000)	(1,101,945)	(101,945)	Understatement of the redemption of DBSA loan amount
Net cash flows from financing activities	(1,000,000)	-	(1,000,000)	(1,101,945)	(101,945)	
Net increase/(decrease) in cash and cash equivalents	(21,173,000)	(48,658,000)	(69,831,000)	12,469,112	82,300,112	
Cash and cash equivalents at the beginning of the year	36,708,000	-	36,708,000	17,016,992	(19,691,008)	Overstatement of opening balances
Cash and cash equivalents at the end of the year	15,535,000	(48,658,000)	(33,123,000)	29,486,104	62,609,104	

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Property rates	40,625,000	5,687,880	46,312,880	-		46,312,880	37,606,077		(8,706,803)	81 %	93 %
Service charges	282,263,264	(19,871,734)	262,391,530	-		262,391,530	245,716,503		(16,675,027)	94 %	87 %
Investment revenue	16,190,918	976,792	17,167,710	-		17,167,710	19,572,722		2,405,012	114 %	121 %
Transfers recognised - operational	83,868,000	(108,000)	83,760,000	-		83,760,000	171,085,805		87,325,805	204 %	204 %
Other own revenue	10,725,813	(162,233)	10,563,580	-		10,563,580	14,165,518		3,601,938	134 %	132 %
Total revenue (excluding capital transfers and contributions)	433,672,995	(13,477,295)	420,195,700	-		420,195,700	488,146,625		67,950,925	116 %	113 %
Employee costs	(102,792,751)	(7,335,979)	(110,128,730)	(2,766,868)	-	(112,895,598)	(113,917,084)	-	(1,021,486)	101 %	111 %
Remuneration of councillors	(12,627,096)	3,986,556	(8,640,540)	(469,683)	-	(9,110,223)	(9,042,378)	-	67,845	99 %	72 %
Debt impairment	(57,133,000)	(37,575,040)	(94,708,040)			(94,708,040)	(47,720,689)	-	46,987,351	50 %	84 %
Depreciation and asset impairment	(134,096,396)	(4)	(134,096,400)			(134,096,400)	(115,675,089)	-	18,421,311	86 %	86 %
Finance charges	(699,000)	609,900	(89,100)	(16,305,483)	-	(16,394,583)	(21,228,143)	-	(4,833,560)	129 %	3,037 %
Materials and bulk purchases	(198,020,000)	9,405,680	(188,614,320)	(9,411,602)	-	(198,025,922)	(198,025,922)	-	-	100 %	100 %
Transfers and grants	(17,962,208)	11,273,938	(6,688,270)	(6,401,955)	-	(13,090,225)	(13,090,225)	-	-	100 %	73 %
Other expenditure	(67,690,976)	(7,726,754)	(75,417,730)	(1,648,607)	-	(77,066,337)	(94,985,024)	-	(17,918,687)	123 %	140 %
Total expenditure	(591,021,427)	(27,361,703)	(618,383,130)	(37,004,198)	-	(655,387,328)	(613,684,554)	-	41,702,774	94 %	104 %
Surplus/(Deficit)	(157,348,432)	(40,838,998)	(198,187,430)	(37,004,198)		(235,191,628)	(125,537,929)		109,653,699	53 %	80 %
Surplus/(Deficit) for the year	(157,348,432)	(40,838,998)	(198,187,430)	(37,004,198)		(235,191,628)	(125,537,929)		109,653,699	53 %	80 %

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Figures in Rand

	Original budget		Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources												
Total capital expenditure	(43,308,000)	-	(43,308,000)	(17,236,749)			(60,544,749)	(60,544,749)		-	100 %	140 %
Sources of capital funds												
Transfers recognised - capital	(43,308,000)	-	(43,308,000)	(17,236,749)			(60,544,749)	(60,544,749)		-	100 %	140 %
Cash flows												
Net cash from (used) operating	23,135,000	-	23,135,000	49,705,823			72,840,823	60,867,094		(11,973,729)	84 %	263 %
Net cash from (used) investing	(43,308,000)	-	(43,308,000)	(15,961,766)			(59,269,766)	(47,400,461)		11,869,305	80 %	109 %
Net cash from (used) financing	(1,000,000)	-	(1,000,000)	(101,945)			(1,101,945)	(1,101,945)		-	100 %	110 %
Net increase/(decrease) in cash and cash equivalents	(21,173,000)	-	(21,173,000)	33,642,112			12,469,112	12,364,688		(104,424)	99 %	(58)%
Cash and cash equivalents at the beginning of the year	36,708,000	-	36,708,000	(19,691,008)			17,016,992	17,016,992		-	100 %	46 %
Cash and cash equivalents at year end	15,535,000	-	15,535,000	13,951,104			29,486,104	29,381,680		104,424	100 %	189 %

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Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2013				
Financial Performance				
Property rates				40,536,389
Service charges				254,315,428
Investment revenue				14,949,275
Transfers recognised - operational				117,391,477
Other own revenue				9,971,206
Total revenue (excluding capital transfers and contributions)				437,163,775
Employee costs	11,540,186	(11,540,186)	23,080,372	(113,036,036)
Remuneration of councillors	142,423	(142,423)	284,846	(9,065,905)
Debt impairment	25,900,179	(25,900,179)	51,800,358	(89,485,628)
Depreciation and asset impairment	103,346,586	(103,346,586)	206,693,172	(115,759,108)
Finance charges	16,478,948	(16,478,948)	32,957,896	(18,233,098)
Materials and bulk purchases	17,642,452	(17,642,452)	35,284,904	(187,327,394)
Transfers and grants	-	-	-	(17,423,076)
Other expenditure	9,470,235	(9,470,235)	18,940,470	(90,444,164)
Total expenditure	184,521,009	(184,521,009)	369,042,018	(640,774,409)
Surplus/(Deficit)				(203,610,634)
Surplus/(Deficit) for the year				(203,610,634)

Capital expenditure and funds sources

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Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash flows				
Net cash from (used) operating				25,246,751
Net cash from (used) investing				(22,216,861)
Net cash from (used) financing				(1,285,411)
Net increase/(decrease) in cash and cash equivalents				1,744,479
Cash and cash equivalents at the beginning of the year				15,272,514
Cash and cash equivalents at year end				17,016,993

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1. Presentation of Unaudited Annual Financial Statements

The unaudited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These unaudited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.1 Presentation currency

These unaudited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These unaudited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the unaudited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the unaudited annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Offsetting

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a Standard of GRAP or where offsetting reflects the substance of the transaction or other event

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Accounting Policies

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

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Accounting Policies

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	20 - 50 Years
Plant and machinery	2 - 15 Years
Furniture and fixtures	2 - 10 Years
Motor vehicles	2 - 10 Years
Office equipment	2 - 10 Years
IT equipment	2 - 5 Years
Computer software	1 Year
Workshop Equipment	5 Years
Infrastructure	1 - 65 Years
Community	2 - 50 Years
Laboratory equipment	5 Years
Specialised vehicles	10 Years
Other Specialized Equipment	5 Years
Other property, plant and equipment	5 Years

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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Accounting Policies

1.5 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

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Accounting Policies

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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Accounting Policies

1.6 Financial instruments (continued)

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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1.6 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade Debtors from Exchange Transactions	Financial asset measured at amortised cost
Consumer Debtors From Exchange Transactions	Financial asset measured at amortised cost
Trade Debtors from Non Exchange Transactions	Financial asset measured at amortised cost
Consumer Debtors From Non Exchange Transactions	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
DBSA Loans	Financial liability measured at amortised cost
Payables from Exchange Transactions	Financial liability measured at amortised cost
Consumer Deposits	Financial liability measured at amortised cost
Financial Liabilities	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

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1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

When an asset becomes unavailable to continue with its service delivery potential, and asset is classified from cash-generating to non-cash-generating.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

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1.9 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

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1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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1.10 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

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1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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1.11 Provisions and contingencies (continued)

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

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1.12 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

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1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

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Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

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Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

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Accounting Policies

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

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Accounting Policies

1.21 Budget information (continued)

The approved budget covers the fiscal period from 7/1/2013 to 6/30/2014.

The unaudited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 18: Segment Reporting	April 01, 2016	Additional disclosure required

3. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	24,895,166	(12,161,887)	12,733,279	24,910,177	(11,665,483)	13,244,694
Total	24,895,166	(12,161,887)	12,733,279	24,910,177	(11,665,483)	13,244,694

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	13,244,694	(511,415)	12,733,279
	13,244,694	(511,415)	12,733,279

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	13,741,098	(496,404)	13,244,694
	13,741,098	(496,404)	13,244,694

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the cost model (when fair value of investment property cannot be reliably determined), disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

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4. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	267,763,179	-	267,763,179	267,891,379	-	267,891,379
Buildings	499,274,466	(199,095,911)	300,178,555	497,620,111	(174,082,346)	323,537,765
Plant and machinery	249,431	(220,764)	28,667	249,431	(196,684)	52,747
Furniture and fixtures	6,903,395	(4,984,820)	1,918,575	6,901,199	(4,026,970)	2,874,229
Motor vehicles	29,995,304	(24,999,519)	4,995,785	29,995,304	(19,410,114)	10,585,190
Office equipment	1,770,322	(1,481,056)	289,266	1,756,501	(1,173,115)	583,386
IT equipment	3,100,789	(2,386,050)	714,739	2,984,340	(1,656,253)	1,328,087
Work in Progress	44,839,873	-	44,839,873	16,219,757	-	16,219,757
Road network	1,374,040,466	(639,903,422)	734,137,044	1,374,040,466	(580,589,593)	793,450,873
Community	21,187,451	(966,381)	20,221,070	9,928,391	(697,600)	9,230,791
Electricity network	265,273,720	(137,819,646)	127,454,074	265,273,720	(131,749,182)	133,524,538
Other equipment	185,835	(97,922)	87,913	185,835	(60,761)	125,074
Workshop Equipment	2,215,385	(1,757,593)	457,792	2,058,900	(1,387,417)	671,483
Laboratory equipment	372,965	(296,559)	76,406	372,965	(232,876)	140,089
Signage	64,076,434	(24,311,620)	39,764,814	62,348,364	(21,730,946)	40,617,418
Spare parts	265,129	(241,783)	23,346	265,129	(192,037)	73,092
Specialised vehicles	49,217,292	(36,650,145)	12,567,147	49,217,292	(31,728,416)	17,488,876
Other Specialized Equipment	2,070,989	(1,964,737)	106,252	2,070,989	(1,751,765)	319,224
Wastewater network	220,521,849	(82,237,576)	138,284,273	220,521,849	(77,648,289)	142,873,560
Water network	162,057,010	(80,201,384)	81,855,626	160,306,493	(76,250,576)	84,055,917
Other property, plant and equipment	348,505	(282,163)	66,342	348,505	(216,482)	132,023
Total	3,015,729,789	(1,239,899,051)	1,775,830,738	2,970,556,920	(1,124,781,422)	1,845,775,498

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	267,891,379	-	(128,200)	-	-	267,763,179
Buildings	323,537,765	-	(124,200)	1,824,598	(25,059,608)	300,178,555
Plant and machinery	52,747	-	-	-	(24,080)	28,667
Furniture and fixtures	2,874,229	2,196	-	-	(957,850)	1,918,575
Motor vehicles	10,585,190	-	-	-	(5,589,405)	4,995,785
Office equipment	583,386	13,821	-	-	(307,941)	289,266
IT equipment	1,328,087	116,449	-	-	(729,797)	714,739
Work in Progress	16,219,757	45,182,361	-	(16,562,245)	-	44,839,873
Road network	793,450,873	-	-	-	(59,313,829)	734,137,044
Community	9,230,791	-	-	11,259,060	(268,781)	20,221,070
Electricity network	133,524,538	-	-	1,728,070	(7,798,534)	127,454,074
Other equipment	125,074	-	-	-	(37,161)	87,913
Workshop Equipment	671,483	156,485	-	-	(370,176)	457,792
Laboratory equipment	140,089	-	-	-	(63,683)	76,406
Signage	40,617,418	-	-	-	(852,604)	39,764,814
Spare parts	73,092	-	-	-	(49,746)	23,346
Specialised vehicles	17,488,876	-	-	-	(4,921,729)	12,567,147
Other Specialized Equipment	319,224	-	-	-	(212,972)	106,252
Wastewater network	142,873,560	-	-	-	(4,589,287)	138,284,273
Water network	84,055,917	-	-	1,750,517	(3,950,808)	81,855,626
Other property, plant and equipment	132,023	-	-	-	(65,681)	66,342
	1,845,775,498	45,471,312	(252,400)	-	(115,163,672)	1,775,830,738

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	265,153,806	-	(604,700)	7,648,667	-	267,891,379
Buildings	348,418,771	-	-	1,866,251	(24,881,006)	323,537,765
Plant and machinery	70,560	60,319	-	-	(78,132)	52,747
Furniture and fixtures	3,735,891	112,461	-	-	(974,123)	2,874,229
Motor vehicles	15,989,239	551,207	-	-	(5,955,256)	10,585,190
Office equipment	931,415	-	-	-	(348,029)	583,386
IT equipment	2,021,660	256,383	-	-	(949,956)	1,328,087
Work in Progress	43,054,926	19,938,475	-	(46,773,644)	-	16,219,757
Road network	826,693,640	-	-	26,099,147	(59,341,914)	793,450,873
Community	9,274,391	-	-	-	(43,600)	9,230,791
Electricity network	139,590,393	-	-	1,520,686	(7,586,541)	133,524,538
Other equipment	128,161	-	-	-	(3,087)	125,074
Workshop Equipment	1,055,491	-	-	-	(384,008)	671,483
Laboratory equipment	214,682	-	-	-	(74,593)	140,089
Signage	41,690,934	-	-	-	(1,073,516)	40,617,418
Spare parts	126,118	-	-	-	(53,026)	73,092
Specialised vehicles	22,410,605	-	-	-	(4,921,729)	17,488,876
Other Specialized Equipment	537,014	-	-	-	(217,790)	319,224
Wastewater network	138,511,714	-	-	4,528,039	(4,472,591)	142,873,560
Water network	80,912,916	-	-	6,977,106	(3,834,105)	84,055,917
Other property, plant and equipment	201,725	-	-	-	(69,702)	132,023
	1,940,724,052	20,918,845	(604,700)	1,866,252	(115,262,704)	1,845,775,498

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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Total
Opening balance	16,219,757	16,219,757
Additions/capital expenditure	45,182,361	45,182,361
Transferred to completed items	(16,562,245)	(16,562,245)
	44,839,873	44,839,873

Reconciliation of Work-in-Progress 2013

	Included within Infrastructure	Total
Opening balance	43,054,926	43,054,926
Additions/capital expenditure	19,938,475	19,938,475
Transferred to completed items	(46,773,644)	(46,773,644)
	16,219,757	16,219,757

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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5. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Components of Health Care Liabilities

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Contributions-based Liability: This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

Benefits-based Liability: This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

Cross-subsidy Liability: This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

Past-service and future-service liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability. Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

Accrued Liability: In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

Cross-subsidy Liability: The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical aid schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any offbalance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

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5. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(63,125,230)	(55,364,377)
Non-current liabilities	(53,753,425)	(53,753,425)
Current liabilities	(9,371,805)	(1,610,952)
	(63,125,230)	(55,364,377)

The fair value of plan assets includes:

Net expense recognised in the statement of financial performance

Current service cost	2,596,321	2,452,019
Contributions	(1,610,952)	(1,428,468)
Interest cost	4,833,560	3,939,307
Actuarial (gains) losses	1,941,924	236,926
	7,760,853	5,199,784

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.16 %	8.86 %
Medical cost trend rates	8.32 %	7.70 %

The basis on which the discount rate has been determined is as follow: [state basis]

6. Inventories

Consumable stores	2,483,464	2,396,403
Water	134,093	67,983
	2,617,557	2,464,386

7. Receivables from exchange transactions

Deposits	20,708,077	-
Sundry Receivables	9,259,948	7,166,866
	29,968,025	7,166,866

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties with external credit rating (Moody's)

Baa1	29,968,025	7,166,866
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Fair value of trade and other receivables

Trade and other receivables	29,968,025	7,166,866
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8. Receivables from non-exchange transactions

Government grants and subsidies	2,555,055	-
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Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions

Counterparties with external credit rating (Moody's)

Baa1	2,555,055	-
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Figures in Rand	2014	2013
9. Consumer debtors		
Gross balances		
Rates	80,898,814	65,733,226
Electricity	55,122,499	48,491,113
Water	70,791,120	59,489,046
Sewerage	41,975,404	36,589,554
Refuse	27,491,317	22,208,353
Other	126,612,289	105,929,192
	402,891,443	338,440,484
Less: Allowance for impairment		
Rates	(72,758,659)	(59,697,730)
Electricity	(33,825,232)	(38,172,922)
Water	(63,727,178)	(53,381,750)
Sewerage	(37,829,066)	(33,253,620)
Refuse	(24,832,674)	(20,213,716)
Other	(114,247,017)	(95,443,974)
	(347,219,826)	(300,163,712)
Net balance		
Rates	8,140,155	6,035,496
Electricity	21,297,267	10,318,191
Water	7,063,942	6,107,296
Sewerage	4,146,338	3,335,934
Refuse	2,658,643	1,994,637
Other	12,365,272	10,485,218
	55,671,617	38,276,772
Included in above is receivables from exchange transactions		
Electricity	21,297,267	10,318,191
Water	7,063,942	6,107,296
Sewerage	4,146,338	3,335,934
Refuse	2,658,643	1,994,637
Other	12,365,272	10,485,218
	47,531,462	32,241,276
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	8,140,155	6,035,496
Net balance	55,671,617	38,276,772
Rates		
Current (0 -30 days)	2,932,907	19,345,986
31 - 60 days	2,225,568	1,773,933
61 - 90 days	1,994,560	1,586,293
> 90 Days	73,745,779	43,027,014
Less: Provision for Doubtfull debts	(72,758,659)	(59,697,730)
	8,140,155	6,035,496

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Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
9. Consumer debtors (continued)		
Electricity		
Current (0 -30 days)	13,092,511	12,766,985
31 - 60 days	2,595,222	3,203,498
61 - 90 days	1,466,834	2,714,313
> 90 Days	37,967,932	29,806,317
Less: Provision for Doubtfull debts	(33,825,232)	(38,172,922)
	21,297,267	10,318,191
Water		
Current (0 -30 days)	2,515,195	5,485,701
31 - 60 days	2,232,356	2,957,874
61 - 90 days	2,051,625	2,741,557
> 90 Days	63,991,944	48,303,914
Less: Provision for Doubtfull debts	(63,727,178)	(53,381,750)
	7,063,942	6,107,296
Sewerage		
Current (0 -30 days)	1,534,345	1,282,872
31 - 60 days	1,188,748	1,084,231
61 - 90 days	1,065,945	1,032,530
> 90 Days	38,186,366	33,189,921
Less: Provision for Doubtfull debts	(37,829,066)	(33,253,620)
	4,146,338	3,335,934
Refuse		
Current (0 -30 days)	1,029,641	760,876
31 - 60 days	791,375	616,247
61 - 90 days	728,988	561,508
> 90 Days	24,941,313	20,269,722
Less: Provision for Doubtfull debts	(24,832,674)	(20,213,716)
	2,658,643	1,994,637
Other		
Current (0 -30 days)	4,417,758	4,450,800
31 - 60 days	2,903,523	2,392,191
61 - 90 days	2,575,396	2,256,144
> 90 Days	116,715,612	96,830,057
Less: Provision for Doubtfull debts	(114,247,017)	(95,443,974)
	12,365,272	10,485,218
Reconciliation of allowance for impairment		
Balance at beginning of the year	(300,163,712)	(266,929,657)
Contributions to allowance	(47,056,114)	(88,734,786)
Debt impairment written off against allowance	-	55,500,731
	(347,219,826)	(300,163,712)
Fair value of consumer debtors		
Consumer debtors	55,671,617	38,276,772

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9. Consumer debtors (continued)

Consumer debtors impaired

As of June 30, 2014, consumer debtors of R 347,219,826 (2013: R 300,163,712) were impaired and provided for.

The amount of the provision was R 47,056,114 as of June 30, 2014 (2013: R 88,734,786).

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,627	10,422
Bank balances	29,652,174	23,772,256
Bank overdraft	(278,126)	(6,765,686)
	29,381,675	17,016,992
Current assets	29,659,801	23,782,678
Current liabilities	(278,126)	(6,765,686)
	29,381,675	17,016,992

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

AAA	32,280,177	26,809,213
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The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2014	June 30, 2013	June 30, 2012
FNB - Current - 62027040740	2,499,627	3,039,292	3,855,545	(278,126)	(7,480,726)	3,855,545
FNB - Current - 62055246922	12,168,625	27,810	27,683	12,168,625	27,810	27,683
FNB - Call Account - 62177556598	17,542,230	23,676,910	11,316,416	17,413,854	23,676,910	11,316,416
NEDBANK - Call Account - 08735375	41,171	39,440	39,370	41,171	39,440	39,370
NEDBANK - Call Account - 16573103	28,524	25,760	25,760	28,524	25,760	25,760
Total	32,280,177	26,809,212	15,264,774	29,374,048	16,289,194	15,264,774

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	2,900,314	22,282,950
Municipal Systems Improvement Grant	(750,000)	(750,000)
Expanded Public Works Grant	-	407,098
	2,150,314	21,940,048

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Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
11. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	21,940,048	10,994,124
Additions during the year	47,014,000	49,573,000
Income recognition during the year	(66,803,734)	(38,627,076)
	2,150,314	21,940,048

The nature and extent of government grants recognised in the unaudited annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

12. Other financial liabilities

At amortised cost

Development Bank of South Africa	-	1,101,945
Terms and conditions		

Current liabilities

At amortised cost	-	1,101,945
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Financial liabilities at amortised cost

Fair values of financial liabilities measured or disclosed at amortised cost

Other Financial Liabilities	-	1,101,945
Other Financial Liabilities have been accounted for at amortised cost.		

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Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
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13. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Environmental rehabilitation provision	32,409,886	1,574,323	33,984,209
Long Service Provision	9,794,963	65,872	9,860,835
	42,204,849	1,640,195	43,845,044

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Environmental rehabilitation provision	30,735,818	1,674,068	32,409,886
Long Service Provision	7,321,958	2,473,005	9,794,963
	38,057,776	4,147,073	42,204,849

Non-current liabilities	39,495,418	38,535,488
Current liabilities	4,349,626	3,669,361
	43,845,044	42,204,849

Environmental rehabilitation provision

Financial assumptions used:

Adjustment of unit costs:

The baseline for the unit costs used in the MLCCM was set in 2011. Unit costs are adjusted annually on 1 July. For the various cost elements relating to pre-closure planning as well as post-closure monitoring and maintenance, the 3-month average of the CPI was used to adjust the unit cost for each cost element. The unit cost of the various costs elements relating to rehabilitation and closure were adjusted using the Civil Engineering Indices (drawn from the South African Federation of Civil Engineering Contractors website www.safcec.org.za) and the Contract Price Adjustment Factors (drawn from the www.dialytenders.co.za website), using the coefficients for Earthworks as provided in the General Conditions of Contract. The price adjustment for 2014 resulting from these formulas amounted to 7.5305%.

CPI:

The CPI was used for the annual adjustment of unit costs as well as for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI was obtained from Statistics SA's website www.statssa.gov.za/keyindicators/cpi.asp. The average of the CPI for the last three months as published on 30 June 2014 (reporting date) was used for the adjustment of unit costs, as well as for the determination of future value of current costs, i.e. 6.2663%.

Discount rate:

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used as published on the RSA Retail Savings Bond website www.rsaretailbonds.gov.za.

The rate most consistent with the remaining life of both Standerton and Morgenzon landfills published on 30 June 2014 was used, i.e. 1% above CPI.

Long Service Awards Provision

FOR AUDIT

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Figures in Rand

2014

2013

13. Provisions (continued)

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Employee benefit cost provision

The Municipality offers employees LSA for every five years of service completed, from ten years of service to 45 years of service, inclusive.

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
10	4.0%	10 / 250 x annual salary
15	8.0%	20 / 250 x annual salary
20, 25, 30, 35, 40, 45	12.0%	30 / 250 x annual salary

At retirement after age 50, employees are entitled to a gift of R700, if they have less than ten years' service, and R750, if they have more than ten years' service at retirement.

The assumptions which tend to have the greatest impact on the results are:

- (i) The discount rate relative to the salary inflation assumptions;
- (ii) The average retirement age of employees; and
- (iii) Assumed rates of withdrawal of employees from service.

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iii) A 50% decrease in the assumed withdrawal rates from service.

Financial Assumptions

It is difficult to estimate future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. IAS19/GRAP25 requires that financial assumptions be based on market expectations at the valuation date for the period over which the liability obligations are to be settled.

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 6.47% per annum has been used. This rate does not reflect any adjustment for taxation.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, it is between 1.0% and 1.5% above CPI inflation. The expected inflation assumption of 4.96% was obtained from the differential between market yields on index-linked bonds (0.96%) consistent with the estimated terms of the liabilities and those of nominal bonds (6.47%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $(6.47\% - 0.50\% - 0.96\%) / 1.0096$.

Thus, a general salary inflation rate of 5.96% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.48%. It has been assumed that the next salary increase will take place in July 2014.

Average Retirement Age: The Municipality has a normal retirement age of 65. It has been assumed that in-service members will retire at age 60, which implicitly makes an allowance for expected rates of early and ill-health retirement.

HIV/AIDS: No additional allowance has been made regarding expected additional mortality and morbidity due to HIV/AIDS. The mortality table used makes some allowance for this. Increased mortality rates before retirement would lead to a reduction in the employer's LSA liability.

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Figures in Rand	2014	2013
14. Payables from exchange transactions		
Trade payables	43,044	5
Payments received in advanced	9,939,787	9,914,892
Retentions and Guarentees held	6,891,411	3,196,716
Accruals	1,692,542	4,006,229
Accrued leave pay	8,808,646	13,814,296
13th Cheque Provision	2,712,016	2,547,139
Other accrued expenses	276,461,561	175,320,097
Accrual Provincial Licence fees	51,008,426	20,846,767
Unallocated receipts	251,363	306,573
Other Creditors #3	834,931	713,931
	358,643,727	230,666,645

Fair value of trade and other payables

Trade payables	367,124,953	238,395,775
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15. VAT payable

Tax payables	1,241,768	7,443,218
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16. Consumer deposits

Deposits held from Consumer Debtors	2,812,694	2,747,035
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17. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	29,968,033	29,968,033
Other receivables from non-exchange transactions	-	2,555,055	2,555,055
Consumer debtors	-	55,671,617	55,671,617
Cash and cash equivalents	29,659,801	-	29,659,801
	29,659,801	88,194,705	117,854,506

Financial liabilities

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	(367,094,412)	(367,094,412)
Bank overdraft	(278,126)	-	(278,126)
Consumer Deposits	-	(2,812,694)	(2,812,694)
Unspent conditional grants	-	(2,653,478)	(2,653,478)
	(278,126)	(372,560,584)	(372,838,710)

2013

Financial assets

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Figures in Rand	2014	2013
Financial instruments disclosure (continued)		
	At amortised cost	Total
Trade and other receivables from exchange transactions	6,664,757	6,664,757
Consumer debtors	45,314,889	45,314,889
Cash and cash equivalents	27,221,956	27,221,956
	79,201,602	79,201,602

Financial liabilities

	At amortised cost	Total
Other financial liabilities	1,101,945	1,101,945
Trade and other payables from exchange transactions	237,886,182	237,886,182
Taxes and transfers payable (non-exchange)	21,847,511	21,847,511
Vat Payable	38,502,381	38,502,381
	299,338,019	299,338,019

18. Revenue

Service charges	245,716,503	254,315,428
Income from agency services	8,527,223	6,648,060
Rental income	1,692,456	1,755,805
Other income - (rollup)	1,122,423	1,112,083
Government grants	22,555,055	-
Interest received - investment	19,572,722	14,949,275
Property rates	37,606,077	40,536,389
Government grants & subsidies	148,530,750	117,391,477
Fines	1,754,791	271,486
	487,078,000	436,980,003

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	245,716,503	254,315,428
Income from agency services	8,527,223	6,648,060
Rental income	1,692,456	1,755,805
Other income - (rollup)	1,122,423	1,112,083
Government grants	22,555,055	-
Interest received - investment	19,572,722	14,949,275
	299,186,382	278,780,651

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	37,606,077	40,536,389
Transfer revenue		
Government grants & subsidies	148,530,750	117,391,477
Fines	1,754,791	271,486
	187,891,618	158,199,352

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Figures in Rand	2014	2013
19. Property rates		
Rates received		
Property rates	37,606,077	40,536,389
Valuations		
Business & Commercial Properties	150,646,350	150,646,350
Religious Institutions	12,489,500	12,489,500
Farms	14,130,926,397	14,130,926,397
Municipal Properties	3,844,682,105	3,844,682,105
Residential Properties	1,179,361,550	1,179,361,550
Schools	52,208,900	52,208,900
State Owned Properties	28,760,000	28,760,000
Vacant	1,917,300	1,917,300
	19,400,992,102	19,400,992,102

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2014.

20. Service charges

Sale of electricity	180,417,725	181,477,120
Sale of water	32,363,096	38,966,634
Sewerage and sanitation charges	23,003,659	21,707,286
Refuse removal	9,932,023	12,164,388
	245,716,503	254,315,428

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21. Government grants and subsidies		
Equitable share	81,320,000	79,067,000
Municipal Infrastructure Grant	60,700,636	31,854,398
Municipal Systems Improvement Grant	890,000	829,537
Financial Management Grant	1,550,000	1,598,240
Neighbourhood Development Partnership Grant	-	1,745,000
Expanded Public Works Grant	1,463,098	1,349,902
Intergrated National Electrification Programme	2,200,000	500,000
LG Seta Grant	407,016	447,400
	148,530,750	117,391,477

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	47,014,000	120,673,463
Unconditional grants received	81,320,000	79,067,000
	128,334,000	199,740,463

Municipal Infrastructure Grant

Balance unspent at beginning of year	22,282,950	10,616,347
Current-year receipts	41,318,000	43,521,000
Conditions met - transferred to revenue	(60,700,636)	(31,854,397)
	2,900,314	22,282,950

Conditions still to be met - remain liabilities (see note 11).

The municipality has outstanding projects relating to Municipal Infrastructure Grant funding which has yet to be completed. The conditions of the project are directly in-line with the DoRA requirements. The Municipality has committed the unspent portion of the Grant to projects.

The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service by the year 2014 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

Municipal Systems Improvement Grant

Balance unspent at beginning of year	(750,000)	29,537
Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(829,537)
Other	-	(750,000)
	(750,000)	(750,000)

Conditions still to be met - remain liabilities (see note 11).

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21. Government grants and subsidies (continued)

The municipality has made an error in the repayment of the grant. The municipality is in the process of claiming back the money paid erroneously.

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

Financial Management Grant

Balance unspent at beginning of year	-	348,240
Current-year receipts	1,550,000	1,250,000
Conditions met - transferred to revenue	(1,550,000)	(1,598,240)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

Neighbourhood Development Partnership Grant

Current-year receipts	-	1,745,000
Conditions met - transferred to revenue	-	(1,745,000)
	-	-

The Neighbourhood Development Programme (NDP) Unit was established in 2006 and is responsible for managing the Neighbourhood Development Partnership Grant (NDPG).

The NDPG is driven by the notion that public investment and funding can be used creatively to attract private and community investment to unlock the social and economic potential in targeted underserved neighbourhoods, generally townships.

This in turn will not only improve the quality of life of residents but also contribute to South Africa's economic performance.

The purpose of the grant is to therefore fund, support and facilitate the planning and development of neighbourhood development programmes and projects that provide catalytic infrastructure to leverage such third party public and private sector investment for future and more sustainable development.

Expanded Public Works Grant

Balance unspent at beginning of year	407,098	-
Current-year receipts	1,056,000	1,757,000
Conditions met - transferred to revenue	(1,463,098)	(1,349,902)
	-	407,098

Conditions still to be met - remain liabilities (see note 11).

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent jobs.

Integrated National Electrification Programme

Current-year receipts	2,200,000	500,000
Conditions met - transferred to revenue	(2,200,000)	(500,000)
	-	-

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21. Government grants and subsidies (continued)

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Integrated National Electrification Programme stood currently, the challenges it faced as well as the challenges specific to municipalities.

Eskom and the municipalities had completed 220 000 connections as at January 2012. Eskom had 42 infrastructure projects funded, mainly in KwaZulu-Natal and the Eastern Cape, while the municipalities had 45 projects funded. Eskom had been allocated R1.8 billion while the municipalities received R1.1 billion for 2012/13. Special interventions would be undertaken to tackle "island" formations in KwaZulu-Natal and there would be flagship interventions in Engcobo, Umsinga, Maluti-a-Phofung, Masibambisane Rural Development Initiative and King Sabata Dalindyebo Municipality where infrastructure was severely lacking.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 2 of 2013), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

22. Other revenue

Rental income - third party	1,692,456	1,755,805
Other income - (Refer to Note 23)	1,122,423	1,112,083
Government grants	22,555,055	-
	25,369,934	2,867,888

Additional Government grants were received during the financial year of 2014. The additional grants received were accounted for in terms of GRAP 23 - Revenue from Non-Exchange transactions.

The amount included in other revenue arising from exchanges of goods or services are as follows:

Other income	2,814,879	2,867,888
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The amount included in other revenue arising from non-exchange transactions is as follows:

Transfers

Grant received - Department of Economic Development, Environment & Tourism of the Mpumalanga Provincial Government	20,000,000	-
Grant received - Gert Sibande District Municipality	2,555,055	-
	22,555,055	-

23. Other income

Tender Deposits received	80,600	160,812
Cementary fees	109,302	108,209
Building plan charges	35,508	32,426
Commission received	87,362	78,918
Clearance certificates	2,082	(26,043)
Rebates received	27,181	120,859
Rezoning fees	9,600	8,894
Miscellaneous income	172,736	191,308
Connection and reconnection fees	598,052	436,700
	1,122,423	1,112,083

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Figures in Rand	2014	2013
24. General expenses		
Advertising	1,254,216	2,087,041
Auditors remuneration	3,893,282	3,494,466
Bank charges	649,276	544,056
Bursaries	147,886	107,982
Commission paid	600,089	-
Community development and training	721,841	2,112,623
Conferences and seminars	1,694,893	1,735,025
Consumables	4,798,177	3,331,272
Fruitless expenditure	-	341,248
Fuel and oil	3,786,337	3,808,141
IDP And LED	307,400	895,825
IT expenses	450,316	471,807
Insurance	688,552	1,973,426
Legal Fees	3,488,088	3,844,521
Motor vehicle expenses	3,256,190	2,561,153
Other expenses	7,287,244	3,138,043
Project maintenance costs	12,061,207	9,299,211
Protective clothing	486,892	436,334
Staff welfare	60,241	165,566
Telephone and fax	2,598,285	1,558,281
Training	502,409	1,820,349
Travel - local	272,441	402,412
	49,005,262	44,128,782

25. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Gain on sale of property, plant and equipment	1,068,625	183,772
Actuarial Gain/Loss for the year	(1,941,924)	(2,086,488)
Depreciation on property, plant and equipment	115,178,685	115,262,704
Depreciation on investment property	496,404	496,404
Employee costs	122,959,462	122,101,941

FOR AUDIT

Lekwa Local Municipality

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Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
26. Employee related costs		
Basic	72,071,277	69,474,698
Medical aid - company contributions	6,944,072	6,070,777
UIF	718,126	675,839
SDL	991,507	906,233
Other payroll levies	2,450,132	1,954,716
Leave pay provision charge	(3,961,617)	581,899
Current service cost	1,051,241	1,201,825
Defined contribution plans	14,203,013	12,976,968
Travel, motor car, accommodation, subsistence and other allowances	3,585,714	3,663,580
Overtime payments	13,992,632	13,564,979
Long-service awards	606,475	414,144
Acting allowances	1,264,512	1,550,378
	113,917,084	113,036,036
Remuneration of Municipal Manager		
Annual Remuneration	872,271	897,812
Car Allowance	60,000	55,000
Contributions to UIF, Medical and Pension Funds	271,577	164,325
	1,203,849	1,117,137
Remuneration of Chief Financial Officer		
Annual Remuneration	406,004	413,314
Car Allowance	46,800	128,333
Contributions to UIF, Medical and Pension Funds	12,568	183,955
	465,372	725,602
Remuneration of Senior Manager: Legal Services		
Annual Remuneration	363,860	335,535
Car Allowance	169,120	169,120
Contributions to UIF, Medical and Pension Funds	116,393	116,239
	649,372	620,894
Remuneration of Executive Manager: Development & Planning		
Annual Remuneration	540,137	-
Contributions to UIF, Medical and Pension Funds	162,315	-
	702,452	-
Remuneration of Executive Manager: Technical Services		
Annual Remuneration	587,301	-
Contributions to UIF, Medical and Pension Funds	234,571	-
	821,872	-
Remuneration of Executive Manager: Corporate Services		
Annual Remuneration	335,052	-
Contributions to UIF, Medical and Pension Funds	135,113	-
	470,165	-

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Figures in Rand	2014	2013
26. Employee related costs (continued)		
Remuneration of Senior Manager: Internal Audit		
Annual Remuneration	421,113	379,212
Car Allowance	82,446	82,446
Contributions to UIF, Medical and Pension Funds	167,577	161,396
	671,136	623,054
27. Remuneration of councillors		
Councillors	9,042,378	9,065,905
28. Debt impairment		
Contributions to debt impairment provision	47,056,115	29,714,995
Debts impaired	664,574	59,770,633
	47,720,689	89,485,628
29. Investment revenue		
Interest revenue		
Bank	1,299,399	839,239
Interest charged on trade and other receivables	18,273,323	14,110,036
	19,572,722	14,949,275
30. Fair value adjustments		
Other financial assets from non exchange transactions		
• Traffic Fines revenue	(1,308,250)	-
31. Depreciation and amortisation		
Property, plant and equipment	115,178,685	115,262,704
Investment property	496,404	496,404
	115,675,089	115,759,108
32. Finance costs		
Trade and other payables	2,213	-
Bank	60,911	174,396
Fair value adjustments: Notional interest	286,818	329,501
Fair value adjustments on payables	4,833,560	4,384,476
Other interest paid	16,044,641	13,344,725
	21,228,143	18,233,098
33. Auditor's remuneration		
Fees	3,893,282	3,494,466

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Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
34. Contracted services		
Fleet Services	1,817,243	1,798,796
Specialist Services	23,272,338	25,395,799
	25,089,581	27,194,595
35. Grants and subsidies paid		
Other subsidies		
Indigent Grant	13,090,225	17,423,076
36. Bulk purchases		
Electricity	183,417,557	170,436,029
Water	14,608,365	16,891,365
	198,025,922	187,327,394
37. Cash generated from operations		
Deficit	(125,537,929)	(203,610,634)
Adjustments for:		
Depreciation and amortisation	115,675,089	115,759,108
(Loss)/gain on sale of assets and liabilities	873,299	1,902,716
Fair value adjustments	1,308,250	-
Debt impairment	47,720,689	89,485,628
Movements in retirement benefit assets and liabilities	7,760,853	5,199,784
Movements in provisions	1,640,195	4,147,073
Changes in working capital:		
Inventories	(153,171)	(142,170)
Receivables from exchange transactions	(22,801,159)	5,247
Consumer debtors	(65,115,534)	(76,145,656)
Other receivables from non-exchange transactions	(2,555,055)	-
Payables from exchange transactions	127,977,092	81,367,197
VAT	(6,201,450)	(3,779,816)
Unspent conditional grants and receipts	(19,789,734)	10,945,924
Consumer deposits	65,659	112,350
	60,867,094	25,246,751

FOR AUDIT

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
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38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	6,633,849	22,190,413
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This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	1,339,887	586,700
- in second to fifth year inclusive	1,880,730	444,550
	3,220,617	1,031,250

The total future minimum sublease payment expected to be received under non-cancellable sublease	3,220,617	1,031,250
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Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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39. Contingencies

The Municipality has the following Legal cases pending which could result in possible outflow of economic resources.

No.	Description/ Citation of parties	Nature of details of Case	Citation @ Court	Amount of Dispute	Current Status
1.	AT Manana / Lekwa Local Municipality.	Allegation of unfair dismissal	JR185/2010 @ JHB Labour Court	None	Pending
2.	Runaway Investments (Pty) Ltd	Allegation of breach of unfair termination of contract.	8003/2011 @ PTA High Court	R 3,262,488.20	Pending
3.	Hayes Matkovich Developments / Lekwa Local Municipality	Allegation of breach of contract		R 30,000,000.00	Pending
4.	Various Farmers / Lekwa Local Municipality.	Allegation of damage to property	Various @ PTA High Court 45910/2009	R 13,000,000.00	Pending
5.	Sipho Dlamini / Lekwa Local Municipality.	Allegation of non-payment of remuneration for extra work	37897/2012 @ PTA High Court	R 350,000.00	Pending
6.	Agavelle Bester / Lekwa Local Municipality.	Allegation liability for loss of support from breadwinner	4268/2009 @ PTA High Court	R 2,000,000.00	Pending
7.	Lekwa Local Municipality / MJ Thanjekwayo	Damage to Municipal property		R 25,000.00	Pending
8.	Lekwa Local Municipality / Lindiwe Cindi & Sonnyboy Motaung	Review of outcome of internal disciplinary case			Pending
9.	Phumi Trading JV Mosallo Zane / Lekwa Local Municipality.	Non payment of retention amount			Pending
10.	Butiza Samuel Tsotetsi / Lekwa Local Municipality.	Allegation of damage from a collision with a municipal motor vehicle.			Pending
11.	Motsamai Nkebenyane / Lekwa Local Municipality.	Allegation of damage to property from spillage of sewer.	132/2013	R 100,000.00	Pending
12.	Pheela Abraham Motaung & others / Lekwa Local Municipality.	Allegation of loss of property due to negligence of the fire department .	47901/2012 @ PTA High Court	R 200,000.00	Pending
13.	Roadspan Surface (Pty) Ltd / Lekwa Local Municipality	Allegation of non-payment of amount in terms of a cession	164/2013 @ Standerton High Court	R 25,000.00	Pending
14.	Anelisa Sijila / Lekwa Local Municipality	Allegation of breach of contract	Standerton Court	R 48,400.00	Pending
15.	Anelisa Sijila / Lekwa Local Municipality	Allegation of damages from breach of contract	Evander Regional Civil Court	R 278,000.00	Pending
16.	Lekwa Local Municipality / Unlawful Invaders	Unlawful invasion and occupation of Municipal Land	34612/2011 @ PTA High Court		Pending

FOR AUDIT

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Unaudited Annual Financial Statements for the year ended June 30, 2014

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39. Contingencies (continued)

List of Legal Firms, Advocates & Attorneys that assisted Lekwa Local Municipality in the year

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ADV. BRADON BROOKS
ADV. KENNEDY N TSATSAWANE
ADV. MM MAJOZI
ADV. NIMROD CASSEL SC
ADV. MTO COSTA
B. DLOVA MOLOTO ATTORNEYS
GERRIT NEL INC
GILDENHUYS MALATJI ATTORNEYS
JOHN G HUNTER ATTORNEYS
LANGEVELDT & NEL
MACKENZIE HOY CONSULTING
MB DLAMINI ATTORNEYS
MINDE SCHAPIRO & SMITH
NGENO & MTHETO
PRETORIA BAR SOCIETY
TMN KGOMO ATTORNEYS
VERVEEN ATTORNEYS

FOR AUDIT

Lekwa Local Municipality

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
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40. Related parties

Relationships

Accounting Officer

Members of key management

L.B. Tshabalala
Cllr. J.F. Buthelezi
Cllr. J.R. de Ville
Cllr. L.B.R. Dhlamini
Cllr. S.S. Gumede
Cllr. H.M. Khota
Cllr. M.S. Khumalo
Cllr. M.Y. Khumalo
Cllr. M.G. Makhanye
Cllr. J.P. Masuku
Cllr. M.L. Molaba
Cllr. C.M. Morajane
Cllr. S.S. Mosia
Cllr. J.B. Mothopeng
Cllr. P. Mphuthi
Cllr. G.S. Msibi
Cllr. A.S. Ngwenya
Cllr. L.N. Nkosi
Cllr. M.M. Ntuli
Cllr. M.D. Rakitla
Cllr. F. Sarang
Cllr. P.T. Schnetler
Cllr. B.G. Sekhonde
Cllr. E.N.K. Shabangu
Cllr. N.Z.E. Sitshoni
Cllr. M.R. Tshabalala
Cllr. N. Tshabalala
Cllr. J.J. van der Wath
Cllr. J.L. van Rensburg
Cllr. S.M. Zacarias
Cllr. B.S. Zwane

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties

Councillors	147,899	106,857
Inter-Governmental	116,707	-

Amounts included in Unspent Grants regarding related parties

National Treasury	(2,150,314)	(21,940,048)
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Amounts included in Receivables from non exchange transactions regarding

Gert Sibande District Municipality	2,555,055	-
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Key management information

Mayor	Cllr. C.M. Morajane	1
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FOR AUDIT

Lekwa Local Municipality

(Registration number MP305)

Unaudited Annual Financial Statements for the year ended June 30, 2014

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
40. Related parties (continued)		
Councillors	Cllr. J.F. Buthelezi Cllr. J.R. de Ville Cllr. L.B.R. Dhlamini Cllr. S.S. Gumede Cllr. H.M. Khota Cllr. M.S. Khumalo Cllr. M.Y. Khumalo Cllr. M.G. Makhanye Cllr. J.P. Masuku Cllr. M.L. Molaba Cllr. C.M. Morajane Cllr. S.S. Mosia Cllr. J.B. Mothopeng Cllr. P. Mphuthi Cllr. G.S. Msibi Cllr. A.S. Ngwenya Cllr. L.N. Nkosi Cllr. M.M. Ntuli Cllr. M.D. Rakitla Cllr. F. Sarang Cllr. P.T. Schnetler Cllr. B.G. Sekhonde Cllr. E.N.K. Shabangu Cllr. N.Z.E. Sitshoni Cllr. M.R. Tshabalala Cllr. N. Tshabalala Cllr. J.J. van der Wath Cllr. J.L. van Rensburg Cllr. S.M. Zacarias Cllr. B.S. Zwane L.B. Tshabalala	31 <

Councillor Salaries Disclosure

2014

Remuneration of Councillor: JF BUTHELEZI

Annual Remuneration	98,159.46
Travel Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	98,561.96
	263,966.27

Remuneration of Councillor: MR JR DE VILLE

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	242,603.87

Remuneration of Councillor: MR LBR DLAMINI

Annual Remuneration	323,955.77
Car Allowance	136,850.08
Cellphone Allowance	20,287.00
Contributions to Medical and Pension Funds	159,169.76
	640,262.61

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40. Related parties (continued)

Remuneration of Councillor: MR SS GUMEDE

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	242,603.87

Remuneration of Councillor: MS HM KHOTA

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	242,603.87

Remuneration of Councillor: MRS MS KHUMALO

Annual Remuneration	155,023.64
Car Allowance	65,859.29
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	78,068.30
	314,877.23

Remuneration of Councillor: MRS MY KHUMALO

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	242,603.87

Remuneration of Councillor: MR MG MAKHANYE

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	242,603.87

Remuneration of Councillor: MS JP MASUKU

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	242,603.87

Remuneration of Councillor: MS MM MNISI

Annual Remuneration	297,357.03
Car Allowance	128,297.11
Cellphone Allowance	20,287.00
Contributions to Medical and Pension Funds	164,162.98
	610,104.12

Remuneration of Councillor: MS ML MOLABA

Annual Remuneration	142,490.96
Car Allowance	65,859.29
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	100,292.30
	324,568.55

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40. Related parties (continued)

Remuneration of Councillor: MS CM MORAJANE

Annual Remuneration	407,453.55
Car Allowance	171,062.84
Cellphone Allowance	20,287.00
Contributions to Medical and Pension Funds	194,781.91
	793,585.30

Remuneration of Councillor: MR SS MOSIA

Annual Remuneration	167,094.44
Car Allowance	65,859.29
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	57,950.30
	306,830.03

Remuneration of Councillor: MR JB MOTHOPENG

Annual Remuneration	151,588.04
Car Allowance	65,859.29
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	83,794.30
	317,167.63

Remuneration of Councillor: MR P MPHUTHI

Annual Remuneration	110,163.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	78,555.96
	255,963.87

Remuneration of Councillor: MRS GS MSIBI

Annual Remuneration	304,829.63
Car Allowance	128,297.11
Cellphone Allowance	20,287.00
Contributions to Medical and Pension Funds	147,353.98
	600,767.72

Remuneration of Councillor: MR AS NGWENYA

Annual Remuneration	106,893.66
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	84,004.96
	258,143.47

Remuneration of Councillor: MS NL NKOSI

Annual Remuneration	111,587.46
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	76,181.96
	255,014.27

Remuneration of Councillor: MRS MD RAKITLA

Annual Remuneration	108,810.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	80,810.96
	256,865.87

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40. Related parties (continued)

Remuneration of Councillor: MS F SARANG

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	<u>242,603.87</u>

Remuneration of Councillor: MR PT SCHNETLER

Annual Remuneration	104,135.54
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	157,897.32
	<u>329,277.71</u>

Remuneration of Councillor: MS BG SEKHONDE

Annual Remuneration	300,477.83
Car Allowance	128,297.11
Cellphone Allowance	20,287.00
Contributions to Medical and Pension Funds	154,032.98
	<u>603,094.92</u>

Remuneration of Councillor: MR ENK SHABANGU

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	<u>242,603.87</u>

Remuneration of Councillor: MR BS SIBEKO

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	<u>242,603.87</u>

Remuneration of Councillor: MS NZE SITSHONI

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	<u>242,603.87</u>

Remuneration of Councillor: MR MR TSHABALALA

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	<u>242,603.87</u>

Remuneration of Councillor: MR N TSHABALALA

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	<u>242,603.87</u>

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40. Related parties (continued)

Remuneration of Councillor: MR JJ VAN DER WATH

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	<u>242,603.87</u>

Remuneration of Councillor: MR JL JANSEN VAN RENSBURG

Annual Remuneration	130,203.06
Car Allowance	51,318.85
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	45,155.96
	<u>242,603.87</u>

Remuneration of Councillor: MS SM ZACARIAS

Annual Remuneration	167,095.23
Car Allowance	65,859.29
Cellphone Allowance	15,926.00
Contributions to Medical and Pension Funds	57,949.51
	<u>306,830.03</u>

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41. Prior period errors

Statement of Financial Position as at 30 June 2014

Assets	2013 Restated	2013 Reported	Difference	Classification
Current Assets				
Cash and cash equivalents	23,782,678.00	23,780,343.00	2,335.00	ERROR
Consumer debtors	38,276,772.00	45,314,889.00	-7,038,117.00	ERROR
Inventories	2,464,386.00	2,464,386.00	-	
Receivables from exchange transactions	7,166,866.00	7,166,866.00	-	
Receivables from non-exchange transactions	-	-	-	
Total Current Assets	71,690,702.00	78,726,484.00	-7,035,782.00	
Non-Current Assets				
Investment property	13,244,694.00	9,880,902.00	3,363,792.00	ERROR
Property, plant and equipment	1,845,775,498.00	1,896,135,556.00	-50,360,058.00	ERROR
Total Non-Current Assets	1,859,020,192.00	1,906,016,458.00	-46,996,266.00	
Total Assets	1,930,710,894.00	1,984,742,942.00	-54,032,048.00	

Lekwa Local Municipality

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41. Prior period errors (continued)

Liabilities

Current Liabilities

Bank overdraft	6,765,686.00	7,480,726.00	715,040.00	ERROR
Consumer deposits	2,747,035.00	2,704,727.00	-42,308.00	ERROR
Employee benefit obligation	1,610,952.00	1,610,952.00	-	
Other financial liabilities	1,101,945.00	1,101,945.00	-	
Payables from exchange transactions	230,666,645.00	233,587,161.00	2,920,516.00	ERROR
Provisions	3,669,361.00	3,669,361.00	-	
Unspent conditional grants and receipts	21,940,048.00	21,940,048.00	-	
VAT payable	7,443,218.00	6,226,909.00	-1,216,309.00	ERROR

Total Current Liabilities

275,944,890.00	278,321,829.00	2,376,939.00
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Non-Current Liabilities

Employee benefit obligation	53,753,425.00	53,753,425.00	-
Provisions	38,535,488.00	38,535,488.00	-

Total Non-Current Liabilities

92,288,913.00	92,288,913.00	-
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Total Liabilities

368,233,803.00	370,610,742.00	2,376,939.00
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Net Assets

Accumulated surplus	1,562,477,091.00	1,614,132,200.00	-56,408,987.00	ERROR
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Lekwa Local Municipality

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Notes to the Unaudited Annual Financial Statements

Figures in Rand

41. Prior period errors (continued)

Statement of Financial Performance	2013 Restated	2013 Reported	Difference	Classification
Revenue				
Revenue from exchange transactions				
Service charges	254,315,428.00	252,557,098.00	1,758,330.00	ERROR
Income from agency services	6,648,060.00	6,564,578.00	83,482.00	RECLASS
Rental income	1,755,805.00	575,954.00	1,179,851.00	RECLASS
Other income	1,112,083.00	1,195,565.00	-83,482.00	RECLASS
Government grants	-	-	-	
Interest received - investment	14,949,275.00	14,947,118.00	2,157.00	ERROR
Gains on disposal of assets	183,772.00	-	183,772.00	RECLASS
Total revenue from exchange transactions	278,964,423.00	275,840,313.00	3,124,110.00	
Revenue from non-exchange transactions				
Taxation revenue				
Property rates	40,536,389.00	41,716,240.00	-1,179,851.00	RECLASS
Transfer revenue				
Government grants & subsidies	117,391,477.00	117,391,477.00	-	
Fines	271,486.00	271,486.00	-	
Total revenue from non-exchange transactions	158,199,352.00	159,379,203.00	-1,179,851.00	
Total revenue	437,163,775.00	435,219,516.00	1,944,259.00	

Lekwa Local Municipality

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Figures in Rand

41. Prior period errors (continued)

Expenditure

Personnel	113,036,036.00	114,990,029.00	1,953,993.00	RECLASS
Remuneration of councillors	9,065,905.00	8,417,347.00	648,558.00	RECLASS
Depreciation and amortisation	115,675,089.00	115,346,586.00	412,522.00	ERROR
Finance costs	18,233,098.00	18,233,098.00	-	
Debt impairment	89,485,628.00	81,368,875.00	8,116,753.00	ERROR
Repairs and maintenance	17,034,299.00	13,415,337.00	3,618,962.00	ERROR
Bulk purchases	187,327,394.00	186,518,649.00	808,745.00	ERROR
Contracted services	27,194,595.00	12,557,876.00	14,636,719.00	RECLASS
Grants and subsidies paid	17,423,076.00	16,743,382.00	679,694.00	ERROR
Actuarial gain/(loss) for the year	2,086,488.00	-	2,086,488.00	RECLASS
General Expenses	44,128,782.00	49,513,329.00	-5,384,547.00	RECLASS
Total expenditure	640,690,390.00	617,104,508.00	27,577,887.00	
Operating deficit	-203,526,615.00	-181,884,992.00	-25,633,628.00	
Fair value adjustments	-	1,902,716.00	-1,902,716.00	RECLASS
Deficit for the year	-203,526,615.00	-183,787,708.00	-23,730,912.00	

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Lekwa Local Municipality

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Notes to the Unaudited Annual Financial Statements

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41. Prior period errors (continued)

The following errors have occurred during the financial year:

Statement of Financial Position:

1. Property, plant and equipment - Work in Progress have been overstated. The amounts related to capital and operating expenditure for projects which was incorrectly shown in the prior years' as Work in progress.
2. Property, plant and equipment - 4 Road sections were not accounted for in the asset register during the Deemed cost take on as per Directive 7. These roads have now been accounted for as per GRAP 3.
3. Investment property - Properties were included under land and not under Investment properties.
4. Consumer debtors - Basic charges not billed and rebates given were corrected.
5. Cash and cash equivalents - Interest on the last day of the prior year were accrued for.
6. Bank overdraft, Payables from exchange transactions - Accruals for 2013 were understated.
7. Consumer deposits - Consumer deposits were corrected - 2010 adjustment was made in error.
8. VAT Payable - Effect of Work in Progress and retentions. Work in progress and retentions were overstated.

Statement of Financial Performance:

1. Service charges - Basic charges not billed and rebates given were corrected.
2. Income from Agency fees - Reclassification from other income.
3. Rental Income - Reclassification from Rates.
4. Other income - Reclassification to Income from Agency fees.
5. Interest received - Interest on bank accounts accrued for.
6. Gains on disposal of assets - Land sold reclassified.
7. Property rates - Reclassification to rental income.
8. Employee costs- Reclassification of actuarial loss.
9. Reclassification of Councillor related expenses from general expenses.
10. Depreciation - Effect of depreciation of roads accounted for, as well as Work in Progress capitalised.
11. Debt impairment - Basic charges not billed and rebates given were corrected.
12. Repairs and maintenance - Work in progress of assets expensed which did not constitute a capital project.
13. Bulk purchases - Accruals for 2013 understated.
14. Contracted services - Reclassification of expenses.
15. Grants and subsidies paid - Basic charges not billed and rebates given were corrected.
16. Actuarial gain/loss - Reclassification from employee costs.
17. General expenses - Accruals for 2013 not accounted for, prior period errors on Work in Progress, reclassification of other expenses.
17. Fair value adjustments - Actuarial gain previously disclosed as an Other Item.

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
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42. Risk management

Financial risk management

Credit risk is defined as the risk that one party to a financial instrument will fail to honour their obligation, thus causing the other party to incur a financial loss.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. This comprises three types of risks, which is currency risk, interest rate risk and other prices risk.

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest rate changes.

Potential concentrations of credit risk and interest rate risk consist mainly of fixed deposit investments, long term debtors, consumer debtors, other debtors, short term investment deposits and bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well established financial institutions of high quality credit standing. The credit exposure to any single counterparty is managed by setting transaction/exposure limits, which are included in the municipality's investment policy. These limits are reviewed annually by the CFO and authorised by the executive mayoral committee.

Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due date are cut immediately.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market).

Liquidity risk is the risk that the municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The financial liabilities of the municipality are backed by appropriate assets and it has adequate liquid resources. The Council monitors the cash projections and by ensuring that borrowing facilities are available to meet its cash requirements.

The maximum credit and interest rate risk exposure in respect of relevant financial instruments is as follows:

Description of type of financial instrument	R	R
Receivables from Exchange transactions	85,639,642	52,481,755
Cash and Cash Equivalents	29,381,675	23,780,343
Maximum credit and interest rate risk exposure	115,021,317	79,156,989

43. Going concern

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
44. Unauthorised expenditure		
Opening balance	383,007,754	198,486,745
Unauthorised for the year	-	184,521,009
Less: Unauthorised expenditure condoned	(383,007,754)	-
	-	383,007,754

Unauthorised expenditure will be referred to Council in September 2014 to be condoned.

45. Fruitless and wasteful expenditure

Opening balance	22,102,174	8,233,839
Interest on arrear Eskom Account	16,044,641	13,344,723
Fruitless and wasteful expenditure - SARS Penalties on PAYE	-	523,612
Less: Fruitless and wasteful expenditure condoned	(38,146,815)	-
	-	22,102,174

Fruitless and wasteful expenditure will be referred to Council in September 2014 to be condoned.

46. Irregular expenditure

Opening balance	35,408,806	4,567,806
Point system not followed	-	4,487,624
B-BBEE original or certified copies not obtained	-	26,291,872
Other	2,458,631	61,504
Less: Amounts condoned	(37,867,437)	-
Closing balance	-	35,408,806

Analysis of expenditure awaiting condonation per age classification

Current year	-	30,841,000
Prior years	35,408,806	4,567,806
	35,408,806	35,408,806

Details of irregular expenditure – current year

SCM not followed	All matters where deviation in the SCM was followed	2,458,631
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Details of irregular expenditure condoned

Compliance Matters	Irregular expenditure to be condoned by Council.	35,408,806
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47. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

Operating activities

Actual amount as presented in the budget statement	23,135,000	-
Basis differences	37,732,094	-
Net cash flows from operating activities	60,867,094	-

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Figures in Rand	2014	2013
47. Reconciliation between budget and cash flow statement (continued)		
Investing activities		
Actual amount as presented in the budget statement	(43,308,000)	-
Basis differences	(4,092,461)	-
Net cash flows from investing activities	(47,400,461)	-
Financing activities		
Actual amount as presented in the budget statement	(1,000,000)	-
Basis differences	(101,945)	-
Net cash flows from financing activities	(1,101,945)	-
Net cash generated from operating, investing and financing activities	12,364,688	-
48. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	17,000	1,854,786
Amount paid - current year	(17,000)	(1,854,786)
	-	-
Material losses		
Current year subscription / fee	61,397,508	59,794,825
Electricity losses for the current year amounted to 22% i.e R 55,855,361.38 (2013: 19.9% i.e. R52,125,090). These losses comprise of technical and nontechnical losses.		
Technical losses, being losses within the network which are inherent in any network, account for 10% .Non-technical losses, being theft, faults, billing errors etc., account for 9.9%. Attempts are currently being made to reduce these non-technical losses.		
Non revenue water i.e. non billed water amounted to 14% i.e. R 5,542,146.41 (2013: 57.2% i.e. R7,669,735). 10% of these losses can be accounted for it terms of the National Guidelines for nonrevenue water.4% of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc.. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.		
Audit fees		
Current year subscription / fee	4,256,721	3,494,466
Amount paid - current year	(4,256,721)	(3,494,466)
	-	-
PAYE and UIF		
Opening balance	1,647,819	-
Current year subscription / fee	13,157,948	12,887,632
Amount paid - current year	(11,965,660)	(11,239,813)
Amount paid - previous years	(1,647,819)	-
	1,192,288	1,647,819

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Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	2,359,116	-
Current year subscription / fee	23,916,899	28,104,761
Amount paid - current year	(21,235,243)	(25,745,645)
Amount paid - previous years	(2,359,116)	-
	2,681,656	2,359,116

VAT

VAT payable	1,241,768	7,443,218
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VAT output payables and VAT input receivables are shown in note 15.

All VAT returns have been submitted by the due date throughout the year.

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Unaudited Annual Financial Statements for the year ended June 30, 2014

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2014:

June 30, 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. M.S. Khumalo (Acc. Holder: T.T. Radebe)	362	-	362
Cllr. L.B.R. Dhlamini (Acc. Holder: S.Z. Dhlamini)	727	-	727
Cllr. M.M. Mnisi (Acc. Holder: M.M. Mnisi)	296	-	296
Cllr. J.B. Mothopeng (Acc. Holder: J.B. Mothopeng)	152	-	152
Cllr. J.P. Masuku (Acc. Holder: L.M. Motaung)	1,216	5,100	6,316
Cllr. J.J. Van der Wath (Acc. Holder: J.J. Van der Wath)	2,859	-	2,859
Cllr. P.T. Schnetler (Acc. Holder: P.T. Schnetler)	4,210	-	4,210
Cllr. M.G. Makhanye (Acc. Holder: M.G. Makhanye)	(1)	-	(1)
Cllr. H.M. Khota (Acc. Holder: T.B. Nhleko)	244	-	244
Cllr. F. Sarang (Acc. Holder: R.A. Sarang)	578	-	578
Cllr. S.M. Zacarias (Acc. Holder: S.M. Hlatshwayo)	161	-	161
Cllr. M.Y. Khumalo (Acc. Holder: S.P. Khumalo)	677	-	677
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	853	2,838	3,691
Cllr. J.F. Buthelezi (Acc. Holder: E.S. Buthelezi)	1,049	10,684	11,733
Cllr. P. Mphuthi (Acc. Holder: T.A. Mphuthi)	915	618	1,533
Cllr. S.S. Gumede (Acc. Holder: B.J. Gumede)	1,565	-	1,565
Cllr. M.R. Tshabalala (Acc. Holder: M.R. Tshabalala)	229	-	229
Cllr. A.S. Ngwenya (Acc. Holder: A.S. Ngwenya)	805	135	940
Cllr. S.S. Mosia (Acc. Holder:)	4,149	439	4,588
Cllr. N.Z.E. Sitshoni (Acc. Holder: N.Z.E. Sitshoni)	1,882	-	1,882
Cllr. N. Tshabalala (Acc. Holder: N. Tshabalala)	259	-	259
Cllr. B.G. Sekhonde (Acc. Holder: B.G. Sekhonde)	681	-	681
Cllr. L.N. Nkosi (Acc. Holder: L.N. Nkosi)	1,118	29,248	30,366
Cllr. C.M. Morajane (Acc. Holder:)	388	-	388
Cllr. M.D. Rakitla (Acc. Holder: M.D. Rakitla)	1,919	4,741	6,660
	27,293	53,803	81,096

June 30, 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. M.S. Khumalo (Acc. Holder: T.T. Radebe)	294	-	294
Cllr. L.B.R. Dhlamini (Acc. Holder: S.Z. Dhlamini)	(753)	-	(753)
Cllr. M.M. Ntuli (Acc. Holder: M.M. Mnisi)	763	506	1,269
Cllr. J.B. Mothopeng (Acc. Holder: J.B. Mothopeng)	(58)	-	(58)
Cllr. J.P. Masuku (Acc. Holder: L.M. Motaung)	486	-	486
Cllr. J.J. Van der Wath (Acc. Holder: J.J. Van der Wath)	4,889	1	4,890
Cllr. P.T. Schnetler (Acc. Holder: P.T. Schnetler)	566	101	667
Cllr. M.G. Makhanye (Acc. Holder: M.G. Makhanye)	132	-	132
Cllr. H.M. Khota (Acc. Holder: T.B. Nhleko)	516	47	563
Cllr. F. Sarang (Acc. Holder: R.A. Sarang)	1	-	1
Cllr. S.M. Zacarias (Acc. Holder: R.A. Hlatshwayo)	525	-	525
Cllr. M.Y. Mahlangu (Acc. Holder: S.P. Khumalo)	561	-	561
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	736	4,023	4,759
Cllr. J.F. Buthelezi (Acc. Holder: E.S. Buthelezi)	993	11,612	12,605
Cllr. P. Mphuthi (Acc. Holder: T.A. Mphuthi)	83	761	844
Cllr. S.S. Gumede (Acc. Holder: B.J. Gumede)	1,699	69,415	71,114
	11,433	86,466	97,899

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Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013
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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

During the year the above Councillors' had arrear accounts.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council.

49. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	-	1,101,945
	-	1,101,945
Cash set aside for the repayment of long-term liabilities	-	(1,101,945)
	-	-

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Analysis of property, plant and equipment as at 30 June 2014
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	267,891,379	-	(128,200)	-	-	-	267,763,179	-	-	-	-	-	-	267,763,179
Buildings (Separate for AFS purposes)	323,537,765	-	(124,200)	-	-	-	323,413,565	-	-	1,824,598	(25,059,608)	-	(23,235,010)	300,178,555
	591,429,144	-	(252,400)	-	-	-	591,176,744	-	-	1,824,598	(25,059,608)	-	(23,235,010)	567,941,734
Infrastructure														
Roads, Pavements & Bridges	793,450,873	-	-	-	-	-	793,450,873	-	-	-	(59,313,829)	-	(59,313,829)	734,137,044
Storm water	142,873,560	-	-	-	-	-	142,873,560	-	-	-	(4,589,287)	-	(4,589,287)	138,284,273
Street lighting	133,524,538	-	-	-	-	-	133,524,538	-	-	1,728,070	(7,798,534)	-	(6,070,464)	127,454,074
Water purification	84,055,917	-	-	-	-	-	84,055,917	-	-	1,750,517	(3,950,808)	-	(2,200,291)	81,855,626
	1,153,904,888	-	-	-	-	-	1,153,904,888	-	-	3,478,587	(75,652,458)	-	(72,173,871)	1,081,731,017
Community Assets														
Community Assets	9,230,791	-	-	-	-	-	9,230,791	-	-	11,259,060	(268,781)	-	10,990,279	20,221,070
	9,230,791	-	-	-	-	-	9,230,791	-	-	11,259,060	(268,781)	-	10,990,279	20,221,070

June 2014

Cost/Revaluation

Heritage assets
Specialised vehicles

June 2014

Cost/Revaluation

Total property plant and equipment

Land and buildings	591,429,144	-	(252,400)	-	-	-	591,176,744	-	-	1,824,598	(25,059,608)	-	(23,235,010)	567,941,734
Infrastructure	1,153,904,888	-	-	-	-	-	1,153,904,888	-	-	3,478,587	(75,652,458)	-	(72,173,871)	1,081,731,017
Community Assets	9,230,791	-	-	-	-	-	9,230,791	-	-	11,259,060	(268,781)	-	10,990,279	20,221,070
Specialised vehicles	17,808,100	-	-	-	-	-	17,808,100	-	-	-	(5,134,701)	-	(5,134,701)	12,673,399
Other assets	73,402,575	45,471,312	-	-	-	-	118,873,887	-	-	(16,562,245)	(9,048,124)	-	(25,610,369)	93,263,518
	1,845,775,498	45,471,312	(252,400)	-	-	-	1,890,994,410	-	-	-	(115,163,672)	-	(115,163,672)	1,775,830,738

Investment properties

Investment property	13,244,694	-	-	-	-	-	13,244,694	-	-	-	(511,415)	-	(511,415)	12,733,279
	13,244,694	-	-	-	-	-	13,244,694	-	-	-	(511,415)	-	(511,415)	12,733,279

Total

Land and buildings	591,429,144	-	(252,400)	-	-	-	591,176,744	-	-	1,824,598	(25,059,608)	-	(23,235,010)	567,941,734
Infrastructure	1,153,904,888	-	-	-	-	-	1,153,904,888	-	-	3,478,587	(75,652,458)	-	(72,173,871)	1,081,731,017
Community Assets	9,230,791	-	-	-	-	-	9,230,791	-	-	11,259,060	(268,781)	-	10,990,279	20,221,070
Specialised vehicles	17,808,100	-	-	-	-	-	17,808,100	-	-	-	(5,134,701)	-	(5,134,701)	12,673,399
Other assets	73,402,575	45,471,312	-	-	-	-	118,873,887	-	-	-	(9,048,124)	-	(25,610,369)	93,263,518
Investment properties	13,244,694	-	-	-	-	-	13,244,694	-	-	-	(511,415)	-	(511,415)	12,733,279
	1,859,020,192	45,471,312	(252,400)	-	-	-	1,904,239,104	-	-	-	(115,675,087)	-	(115,675,087)	1,788,564,017

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Appendix B

Analysis of property, plant and equipment as at 30 June 2013
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	265,153,806	-	-	-	-	-	265,153,806	-	(604,700)	7,648,667	-	-	7,043,967	267,891,379
Buildings (Separate for AFS purposes)	348,418,771	-	-	-	-	-	348,418,771	-	-	-	(24,881,006)	-	(24,881,006)	323,537,765
	613,572,577	-	-	-	-	-	613,572,577	-	(604,700)	7,648,667	(24,881,006)	-	(17,837,039)	591,429,144
Infrastructure														
Roads, Pavements & Bridges	826,693,640	-	-	-	-	-	826,693,640	-	-	26,099,147	(59,341,914)	-	(33,242,767)	793,450,873
Storm water	138,511,714	-	-	-	-	-	138,511,714	-	-	4,528,039	(4,472,591)	-	55,448	138,567,162
Street lighting	139,590,393	-	-	-	-	-	139,590,393	-	-	1,520,686	(7,586,541)	-	(6,065,855)	133,524,538
Water purification	80,912,916	-	-	-	-	-	80,912,916	-	-	6,977,106	(3,834,105)	-	3,143,001	84,055,917
	1,185,708,663	-	-	-	-	-	1,185,708,663	-	-	39,124,978	(75,235,151)	-	(36,110,173)	1,149,598,490
Community Assets														
Community Assets	9,274,391	-	-	-	-	-	9,274,391	-	-	-	(43,600)	-	(43,600)	9,230,791
	9,274,391	-	-	-	-	-	9,274,391	-	-	-	(43,600)	-	(43,600)	9,230,791

June 2014

Cost/Revaluation

Heritage assets
Specialised vehicles

June 2014

Cost/Revaluation

Total property plant and equipment

Land and buildings	613,572,577	-	-	-	-	-	613,572,577	-	(604,700)	7,648,667	(24,881,006)	-	(17,837,039)	591,429,144
Infrastructure	1,185,708,663	-	-	-	-	-	1,185,708,663	-	-	39,124,978	(75,235,151)	-	(36,110,173)	1,149,598,490
Community Assets	9,274,391	-	-	-	-	-	9,274,391	-	-	-	(43,600)	-	(43,600)	9,230,791
Specialised vehicles	22,947,619	-	-	-	-	-	22,947,619	-	-	-	(5,139,519)	-	(5,139,519)	17,808,100
Other assets	109,220,802	20,918,845	-	-	-	-	130,139,647	-	-	(46,773,644)	(9,963,428)	-	(56,737,072)	73,402,575
	1,940,724,052	20,918,845	-	-	-	-	1,961,642,897	-	(604,700)	1	(115,262,704)	-	(115,867,403)	1,841,469,100

Investment properties

Investment property	13,741,098	-	-	-	-	-	13,741,098	-	-	-	(496,404)	-	(496,404)	13,244,694
	13,741,098	-	-	-	-	-	13,741,098	-	-	-	(496,404)	-	(496,404)	13,244,694

Total

Land and buildings	613,572,577	-	-	-	-	-	613,572,577	-	(604,700)	7,648,667	(24,881,006)	-	(17,837,039)	591,429,144
Infrastructure	1,185,708,663	-	-	-	-	-	1,185,708,663	-	-	39,124,978	(75,235,151)	-	(36,110,173)	1,149,598,490
Community Assets	9,274,391	-	-	-	-	-	9,274,391	-	-	-	(43,600)	-	(43,600)	9,230,791
Specialised vehicles	22,947,619	-	-	-	-	-	22,947,619	-	-	-	(5,139,519)	-	(5,139,519)	17,808,100
Other assets	109,220,802	20,918,845	-	-	-	-	130,139,647	-	-	(46,773,644)	(9,963,428)	-	(56,737,072)	73,402,575
Investment properties	13,741,098	-	-	-	-	-	13,741,098	-	-	-	(496,404)	-	(496,404)	13,244,694
	1,954,465,150	20,918,845	-	-	-	-	1,975,383,995	-	(604,700)	1	(115,759,108)	-	(116,363,807)	1,854,713,794